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# The Loan Arranger

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Fall 2002

Municipal Facilities Section  
Environmental Science and Services Division  
Michigan Department of Environmental Quality 

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## November Bond Proposal

by Kurt Swendsen

Three bills that relate to the State Revolving Fund (SRF) passed the Michigan House and Senate last spring and were signed by Governor Engler on May 30, 2002. The bills will take effect if Proposal 02-2, authorizing the sale of \$1 billion of general obligation bonds, is approved by the voters on November 5th.

If passed, these bills would create a new revolving fund, provide a new source of money for the SRF, stipulate how the new money will be administered, and change the existing SRF point scoring and planning process. The complete text of these bills can be found at <http://www.michiganlegislature.org>. The bill numbers are S.B. 4625, S.B. 5892, and S.B. 5893. Following is a summary of the bills:

1. The bills would create a new revolving fund called the Strategic Water Quality Initiatives Fund (SWQIF). The SWQIF would provide low-interest loans to municipalities for two specific kinds of projects that currently do not qualify for SRF assistance:

- Improvements to reduce or eliminate the amount of groundwater or storm water entering sanitary or combined sewer leads.
- Upgrades or replacements of failing on-site systems that are adversely affecting public health or the environment, or both.

The application, review, and approval process will mirror those of the SRF program (Part 53 of PA 451 of 1994). S.B. 5892 also includes a "*finding*" that the program created by Part 52 (the new SWQIF) is a "public purpose and of paramount concern in the interest of the health, safety, and general welfare of the citizens of the state."

The significance of this new fund is that the public money could be used for work on private property.

2. The bills will result in a new source of money for the SRF. Michigan will be authorized to borrow up to \$1

billion by issuing general obligation bonds "*to finance sewage treatment works projects, storm water projects, and non point source projects that improve the quality of the waters of the state.*"

3. The bills place limits on how the money for the SRF and SWQIF can be used and will be allocated. If passed by the voters, this \$1 billion will be in addition to the money already allocated to the existing SRF. The proceeds cannot be used to match annual federal SRF capitalization (cap) grants, except for those funds in excess of Fiscal Year 2002 cap grant amounts. Ninety percent of the new money will be used for the SRF and 10 percent for the SWQIF. Each year at least 2 percent of all available SRF funds must be allocated, to the extent needed, for non point source projects.

Another restriction establishes the rate at which the debt can be incurred – no more than 10 percent of the bonds can be sold in any one year. Thus, if passed, this bond authorization will provide additional assistance for a minimum of 10 years. The repayment of the bond is required to come from the state's general fund each year.

4. The bills would make changes to the existing SRF point scoring and planning process. Three separate priority lists will be required each year: One for sewage treatment/storm water projects; one for non point source projects; and one for the SWQIF. The SRF priority system will be amended by adding two new (100) point categories; (1) projects that address on-site systems that are adversely affecting the public health/environment and are located in areas with soil/hydrologic conditions that are not suitable for on-site (*continued on page 2*) replacements; and (2) projects that include the construction of septage acceptance/treatment facilities

will receive additional priority points. The population category will not apply to the SWQIF list.

You can contact **Chip Heckathorn**, at 517-373-4725 for further information.

## **Featured Project – Village of Shelby Paved with Good Intentions**

**by Mike Cox**

The village of Shelby (Oceana County) had several large problems. Old US 31 needed repaving. The 9,900 lineal feet of undersized water main underneath Old US 31 was over 50-years-old, prone to breakage, and had lead-oakum joints. The transmission lines serving the village included old sand-cast iron pipe and asbestos pipe salvaged from the U.S. Army's former Camp Claybanks after World War II. The village needed a new 9,900 lineal foot 8-inch water main to replace the existing 4- and 6-inch diameter water main.

The village also needed a new 12-inch diameter well because there wouldn't be enough water pressure and volume if there was a fire and one of the wells was out of service. This new well was drilled about 275 feet deep and should produce about 600 gallons per minute. The new well is next to an existing well on Deming Street and the new well house will be interconnected to both wells, thus increasing reliability.

The Cherry Street and Sessions Road water pumping stations had reached the *end of useful life* and didn't have back up power. New pump stations, back up power, and telemetry were needed. Portions of the water distribution system were installed over 100 years ago. The village had numerous dead ends in its water distribution lines and some lines needed to be replaced. Water would stagnate in these dead ends and cause odor and taste problems. About 4,400 lineal feet of new 8- and 6-inch diameter water lines were needed to correct these deficiencies.

The village was able to combine a Michigan Department of Transportation grant to repave Old US 31 (State Street), and a \$1,385,000 Drinking Water Revolving Fund loan to fix its drinking water system problems. Contractors started in April 2002 and the project will be complete in November 2002.



## **Loan Commitments in the 4<sup>th</sup> Quarter of Fiscal Year 2002**

The Michigan Department of Environmental Quality (DEQ) announced nine new loan commitments in September from the State Revolving Fund (SRF) and seven new commitments from the Drinking Water Revolving Fund (DWRf), totaling over \$67 million. Using Federal capitalization grants and a required state match, the SRF provides low-interest financing for local units of government to make needed improvements to wastewater collection and treatment facilities, while the DWRf funds improvements to public drinking water systems.

The SRF-funded projects include two loans totaling \$13,530,000 to Port Huron, one to finance improvements to the sludge handling facilities at its wastewater treatment plant and a second to continue sewer separation efforts to eliminate combined sewer overflows. The city of Trenton received a \$10,325,000 loan while the city of Adrian received an \$8,920,000 loan, both to finance treatment plant upgrades and sewer rehabilitation. The cities of St. Joseph (\$2,040,000) and Sault St. Marie (\$3,285,000) received loans for on-going sewer separation projects to address combined sewer overflow problems. The city of St. Clair received \$5,065,000 in loan assistance to address sanitary sewer overflow problems, while White Lake Charter Township in Oakland County received \$4,130,000 to provide sanitary sewers for residents around Pontiac Lake. The final SRF loan, for \$5,080,000, went to the Rollin-Woodstock Sanitary Drainage District in Lenawee County to refinance debt incurred to upgrade its wastewater treatment plant.

Assistance to the tune of \$5,665,000 from the DWRf was also provided to the city of Adrian for water system improvements encompassing treatment upgrades, transmission main replacements, and looping to improve system reliability. Port Huron also received a DWRf loan (\$1,805,000) as did the city of Ypsilanti (\$485,000) to accomplish the replacement of under-sized, deteriorated water mains. Jackson County received a \$2,255,000 loan to provide improved storage and replace water mains in the village of Grass Lake. The village of North Branch (\$1,320,000) and the village of Marion (\$1,800,000) were tendered loans to increase their water supply capabilities and to construct improvements to their water distribution systems. The final DWRf loan went to Monroe County (\$1,530,000) and will be used to provide an interconnection for the water system serving the city of South Rockwood, as well as to replace deteriorated water mains. These loans will play a critical roll in increasing the reliability of these public drinking water systems and ensuring that compliance with the requirements of the Safe Drinking Water Act is maintained.

## On Solid Ground with Land Acquisition

by Wendy Jansma

Imagine that you have just found that ideal location for the city's new water tank and you are ready to make a purchase offer. However, if you are interested in loan assistance for your project, you will need to stop and consider the requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970. The purpose of this federal statute is to protect the rights of landowners and residents in the face of a government's need to acquire property. Acquisition of land or structures necessary to construct your drinking water project is eligible for Drinking Water Revolving Fund (DWRf) assistance, provided the acquisition is from a willing seller at fair market value AND the purchase occurs after the adoption of the project plan. The eligibility of land under the State Revolving Fund (SRF) program is limited to wastewater systems that involve land application processes. Acquisition of land in both the SRF and DWRf must conform with the requirements of the Uniform Relocation Act.

Property acquisition under the federal requirements involves an appraisal process unless the property is being donated, or the estimated fair market value is less than \$10,000. When the property is being donated, the property owner must provide a waiver which releases the acquiring agency from its obligation to obtain an appraisal. For those acquisitions where the property valuation is uncomplicated and its fair market value is estimated to be \$2,500 or less, an appraisal is not required. Additional flexibility is afforded for acquisitions between \$2,500 and \$10,000, where the remainder property is either not affected or only affected to a limited degree, and the owner releases the acquiring agency from its obligation to obtain an appraisal. In these cases, a market study based on an examination of current sales of comparable properties can be used to establish fair market value. Quite often, this information can be prepared by your tax assessor.

Land estimated to be valued at greater than \$10,000 must be appraised to determine just compensation. Appraisals are obtained with the objective of establishing an estimate of fair market value, a price that is considered to be fair and equitable to both the property owner and the local government representing the public interest. Appraisals are independently and impartially prepared by qualified appraisers. The local government may use an appraiser on staff or a contract appraiser. As part of the standard appraisal process, the appraiser will certify that neither employment nor compensation influenced the property valuation and that there is no personal interest in the property.

As soon as possible, the government agency must notify the owner of its interest in acquiring the property and the

obligation to secure an appraisal. The owner must be given an opportunity to accompany the appraiser during the appraiser's inspection of the property. The purpose of this requirement is to ensure that the owner has the opportunity to advise the appraiser of any features of the property which might have a bearing in the valuation of the property or might not be obvious to the appraiser. Once the appraisal has been completed, a qualified reviewing appraiser must examine the appraisal to ensure that all applicable standards and requirements were met, and to seek corrections or revisions as necessary.

After receiving the reviewing appraiser's certification of just compensation for the property, the government agency will send a written purchase offer to the property owner. The purchase offer must contain:

- A statement of the amount being offered as just compensation
- An identification of the real property and the particular interest being acquired, including buildings, structures, and other improvements
- In the case of a partial acquisition, the compensation for the real property to be acquired and the compensation for damages (if any) to the remaining real property

When property appraisals are required, the initial offer to the property owner may not be less than the amount that is certified through the appraisal review process. The final offer to the owner may exceed the appraised amount when reasonable efforts to negotiate an agreement at that amount have failed and the acquiring agency can justify the final purchase price as being reasonable, prudent, and in the public interest. However, loan participation in an amount greater than the initially certified price must be based on new information which results in a revised appraisal and a reestablishment of just compensation.

Communities should note that because of the "willing seller" requirement for the DWRf program, land acquired through eminent domain proceedings is not eligible for loan funding. An amicable agreement on the purchase price must be reached. In the SRF program, there is no "willing seller" requirement. Consequently, if the property cannot be obtained through negotiation, land costs based on eminent domain proceedings are eligible under the SRF program.

It is advisable to have all land acquisition carried out by professionals with experience in working with federal requirements and procedures. The Michigan Department of Transportation maintains listings of approved appraisers and reviewing appraisers. Communities are also encouraged to consult with their project managers to keep on solid ground during the land acquisition process.



## **Congratulations and Farewell to Warren Slocum**



After 27 years of dedicated state service, most of them involved in managing projects in the former Construction Grants Program, and now in the revolving fund loan programs, our own Warren Slocum has begun preparations to participate in a new program -- the State's retirement plan! It will be a well-earned change of pace for Warren, and he is looking forward to the opportunity to use the new-found leisure time.

In addition to his work in assisting and guiding municipal projects through environmental and administrative reviews, Warren was also actively involved for many years serving on his local government planning board. His background as a teacher and his doctoral degree in geography combined to provide a wealth of knowledge and experience for both his DNR/DEQ career and his community service avocations.

Warren always remembers his roots and the lessons learned while growing up on the family farm back in Pennsylvania: Keep in touch with the land. So, in addition to his professional work which focused on environmental planning, Warren also kept in touch, literally, with the land -- by growing a garden with a variety of "crops" in his spare time. Undoubtedly there will be time for a larger garden, but it will have to compete with Warren's many other interests, ranging from academic research in matters geographical to combing through archives to research genealogy and family history. An interest in family history meshes perfectly with Warren's family orientation, and the warmth and pride is evident when he recounts family activities with his wife and daughters and his extended family.

Warren's family values and the work-ethic of the farm carried over into his career as well, where respect for others was always foremost as he extended sincere courtesy towards all who had contact with him. Without stretching the phrase, we can truly say that Warren is a gentleman and a scholar, and although we will miss him

in the Municipal Facilities Section, we wish him a happy and fulfilling retirement complete with all his favorite pastimes, including a full measure of relaxation.

## **Department of Environmental Quality Undergoes Restructuring by Chip Heckathorn**

The Michigan Department of Environmental Quality took on a new look effective September 15 as a complete restructuring of the department took effect. The restructuring involved a reduction in program divisions, which previously totaled nine. All program responsibilities have been consolidated into one of six divisions. They are the Air Quality, Environmental Science and Services, Geological and Land Management, Remediation and Redevelopment, Waste and Hazardous Materials, and Water Divisions.

The Municipal Facilities Section (MFS) which manages the State Revolving (SRF) and Drinking Water Revolving Fund (DWRF) programs will remain intact and can now be found in the Environmental Science and Services Division. In addition, the Operator Training and Certification Unit moved into MFS.

Of primary importance to communities and consultants involved in the SRF and DWRF programs (and all wastewater and drinking water facilities) will be a change that is occurring in the district offices. All district activities dealing with wastewater and drinking water facilities will now involve staff of the new Water Division in the respective districts. These responsibilities were previously handled in the Surface Water Quality (surface water discharge facilities), Drinking Water and Radiological Protection (drinking water facilities) and Waste Management (groundwater discharge facilities) Divisions.

Any questions regarding how the restructuring may affect your specific project should be addressed to your project manager (all staff phone numbers have remained the same) or to Chip Heckathorn, Chief of the MFS, at 517-373-4725.



by Edwynna McKee

The program made its first initial obligation of Hardship Grant funds in November 2000. The initial obligation essentially “sets aside” funds for the project based on planning and design cost *estimates*. To date, the program has made initial obligations to Inverness Township in Cheboygan County; Sherman Township in Keweenaw County; St. Ignace Township in Mackinac County; the city of Onaway in Presque Isle County; Wright Township in Hillsdale County; Billings Township in Gladwin County; and the Powderhorn Area Utilities Authority in Gogebic County. Of these communities, Sherman Township is the only one to have an Order of Approval issued to date. The DEQ Order of Approval for planning and design costs was issued concurrently with the USDA-RD loan/grant award. As other applicants move forward through the bidding process and award of construction contracts, additional Orders of Approval will be issued.

The program received a one-time only federal appropriation, resulting in approximately \$2.4 million dollars for Hardship Grant awards in Michigan. To date, a total of \$2,050,944 has been obligated or awarded to seven applicants, leaving a remainder of \$349,056 for future obligation.

[illegible]

- ◆ The applicant must be an incorporated city, village, or township which has been notified of a commitment of financial assistance from USDA-RD, and
- ◆ have 3,000 or fewer year-round inhabitants, and
- ◆ lack a centralized wastewater collection or treatment system, and
- ◆ be located in one of the qualifying counties (shaded on the map at left).

*Qualifying counties are those meeting specific unemployment and per capita income levels, based on data updated annually from the Michigan Department of Career Development.*

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